

Presentation to the Legislature on Alabama's Financial Condition



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Legislative Fiscal Office

February 5, 2013

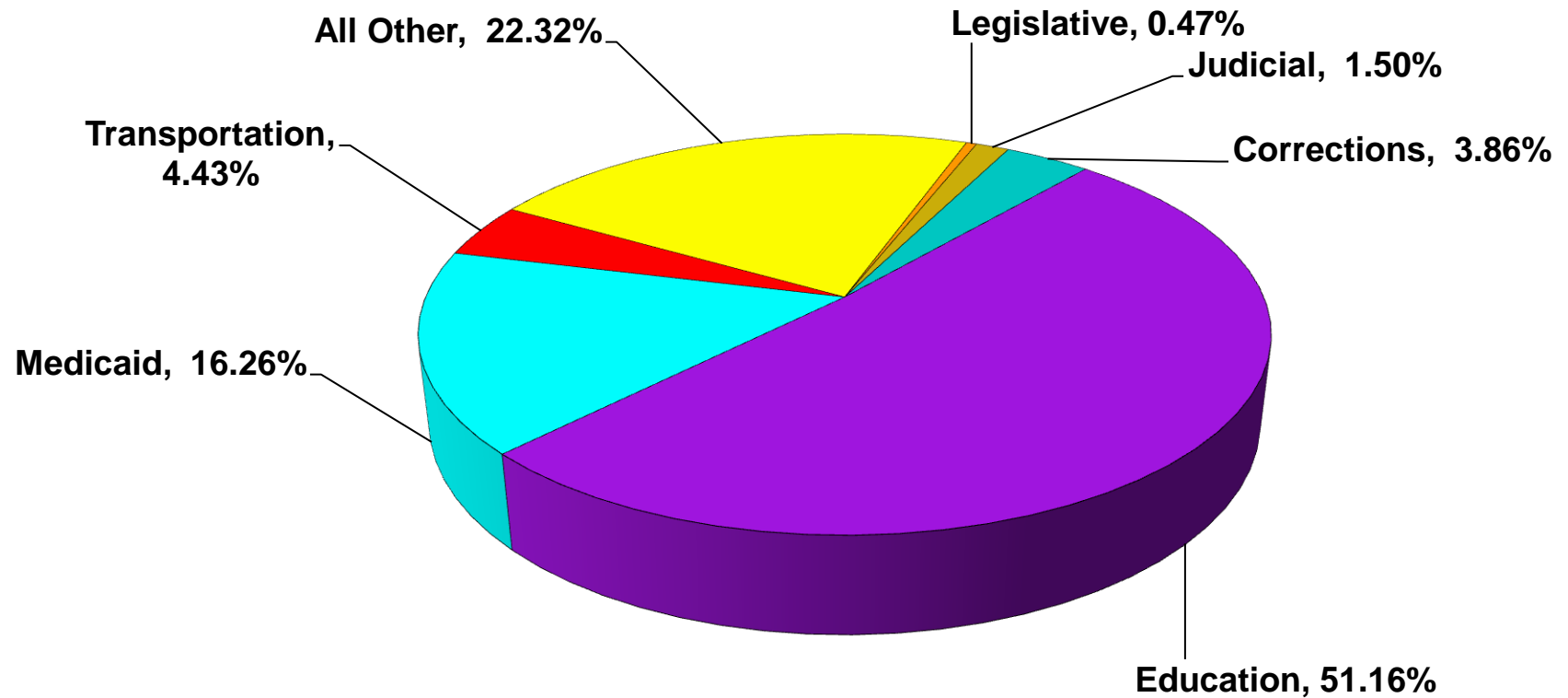
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Presentation Overview

- **Appropriation of All State Funds**
- **ETF**
 - Receipts
 - Appropriations
 - Condition
 - Rolling Reserve
 - Fiscal Cliff
 - Rainy Day Account
- **SGF**
 - Receipts
 - Appropriations
 - Condition
 - Rainy Day Account
- **FY 2014 Budget Requests**
- **Selected Legal Issues**
- **Other Fiscal Information**

Appropriation of All State Funds by Function for FY 2013



**All State Funds:
\$10.6 Billion**

**APPROPRIATION OF STATE FUNDS FOR FISCAL YEAR 2013
AND ESTIMATED PERCENTAGE BREAKDOWN BY FUND/FUNCTION**

	STATE GENERAL FUND	% OF SGF TOTAL	EDUCATION TRUST FUND	% OF ETF TOTAL	OTHER STATE FUNDS (1)	% OF OTHER TOTAL	TOTAL STATE FUNDS	% OF TOTAL
GENERAL APPROPRIATION ACTS:								
LEGISLATIVE BRANCH	38,037,489	2.15%	11,178,624	0.21%	150,000	0.00%	49,366,113	0.47%
JUDICIAL BRANCH	102,807,107	5.82%			55,722,114	1.65%	158,529,221	1.50%
EXECUTIVE BRANCH:								
ABC BOARD					81,581,754	2.41%	81,581,754	0.77%
AGRICULTURE & FORESTRY	22,555,915	1.28%			28,043,167	0.83%	50,599,082	0.48%
CONSERVATION					94,233,237	2.78%	94,233,237	0.89%
CORRECTIONS	372,750,752	21.10%			35,599,741	1.05%	408,350,493	3.86%
HUMAN RESOURCES	62,975,656	3.56%	13,415,275	0.25%	173,593,536	5.13%	249,984,467	2.36%
MEDICAID	615,125,607	34.82%			1,104,691,447	32.64%	1,719,817,054	16.26%
MENTAL HEALTH	104,723,003	5.93%	615,588	0.01%	208,001,487	6.15%	313,340,078	2.96%
PUBLIC HEALTH	66,597,989	3.77%	11,820,088	0.22%	53,611,279	1.58%	132,029,356	1.25%
PUBLIC SAFETY	53,964,146	3.05%			57,200,000	1.69%	111,164,146	1.05%
REVENUE	17,140	0.00%			112,030,000	3.31%	112,047,140	1.06%
TRANSPORTATION					468,177,465	13.83%	468,177,465	4.43%
YOUTH SERVICES	7,240,237	0.41%	44,573,799	0.82%	19,210,307	0.57%	71,024,343	0.67%
DEBT SERVICE	37,479,863	2.12%			42,547,578	1.26%	80,027,441	0.76%
NON-STATE APPROPRIATIONS	196,978	0.01%			1,744,832	0.05%	1,941,810	0.02%
OTHER APPROPRIATIONS	282,188,515	15.97%	155,688,497	2.87%	624,378,926	18.45%	1,062,255,938	10.05%
ETF APPROPRIATION ACTS:								
K - 12 FOUNDATION PROGRAM			3,772,554,073	69.57%	222,618,959	6.58%	3,995,173,032	37.78%
POSTSECONDARY EDUCATION			319,007,264	5.88%			319,007,264	3.02%
UNIVERSITIES (INCLUDING ACHE)			1,082,626,314	19.96%	1,340,000	0.04%	1,083,966,314	10.25%
DEBT SERVICE			11,428,015	0.21%			11,428,015	0.11%
TOTALS (2)	1,766,660,397	100.00%	5,422,907,537	100.00%	3,384,475,829	100.00%	10,574,043,763	100.00%

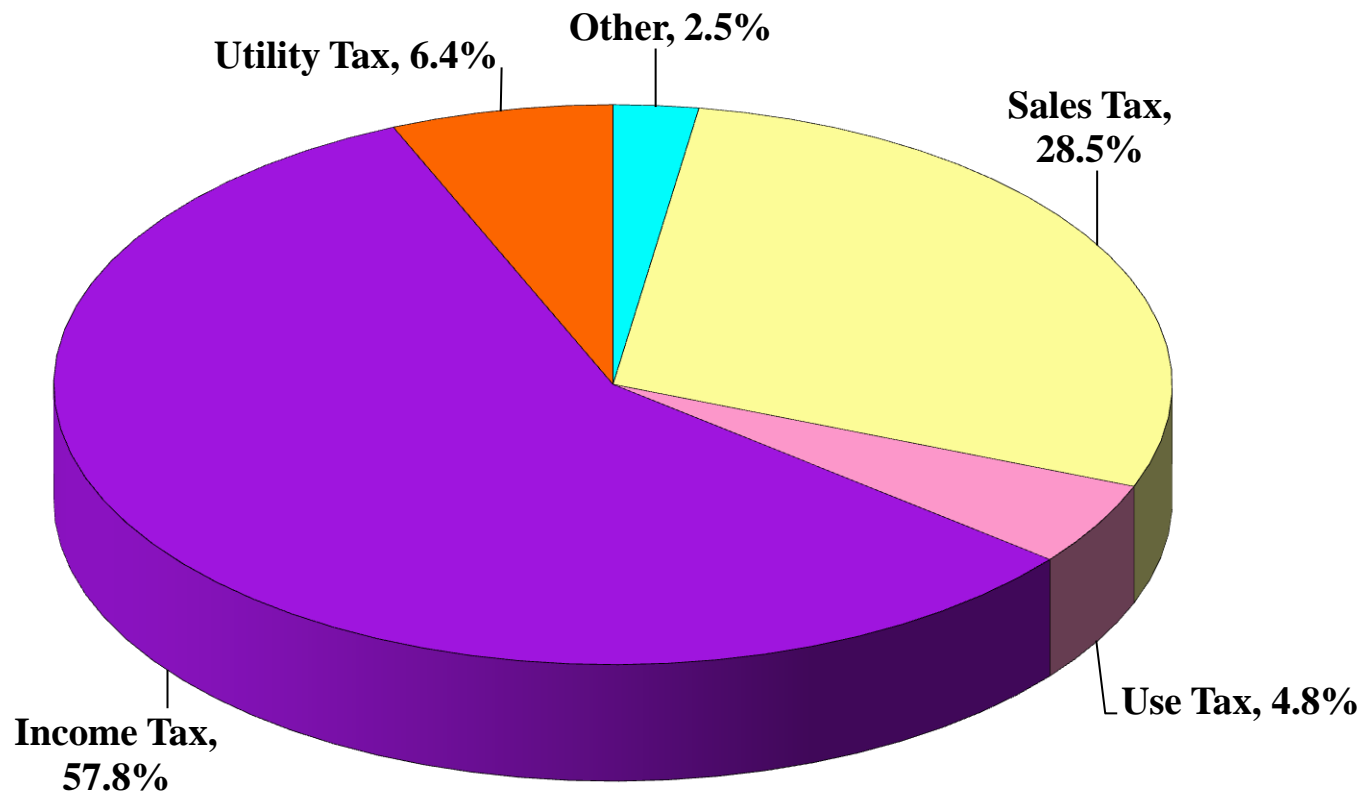
Appropriations as of December 31, 2012.

(1) Includes taxes, fees and charges collected by state agencies, Children First Trust Fund and tobacco settlement fund appropriations; does not include bond proceeds, interagency transfers or federal funds.

(2) Totals may not add due to rounding.

The Education Trust Fund

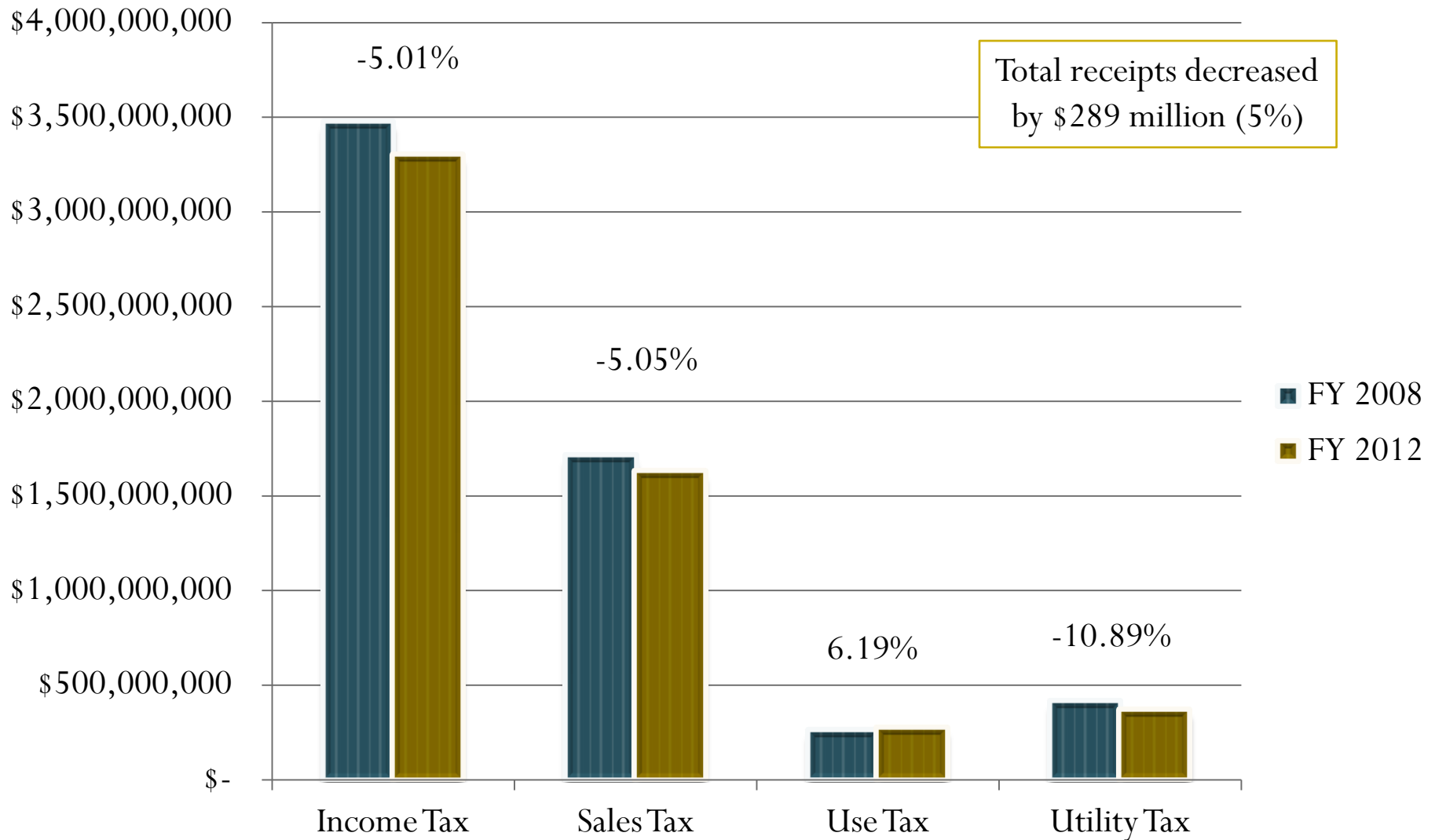
Education Trust Fund FY 2012 Receipts



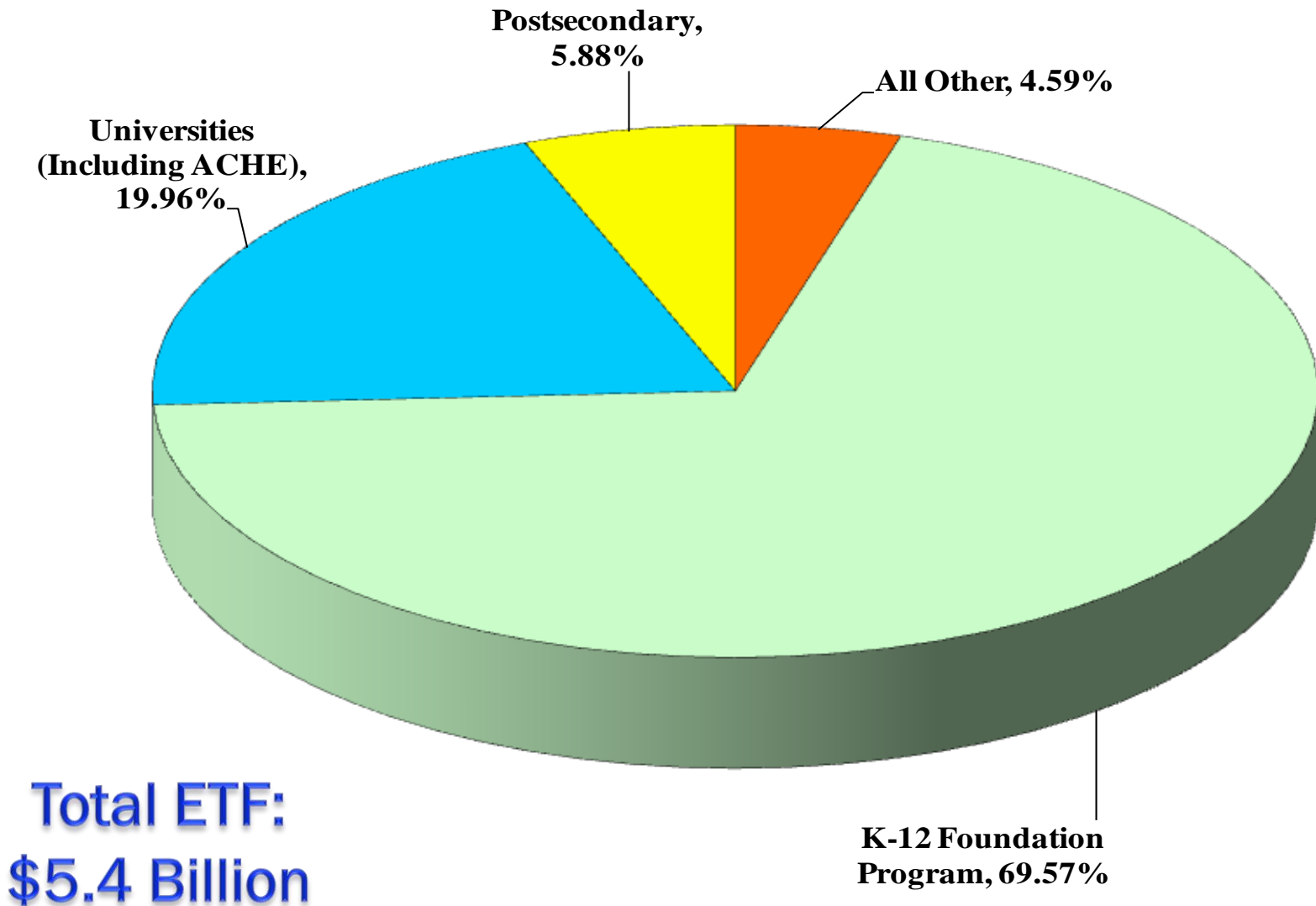
Total Receipts:
\$5.7 Billion

Major ETF Revenue Sources

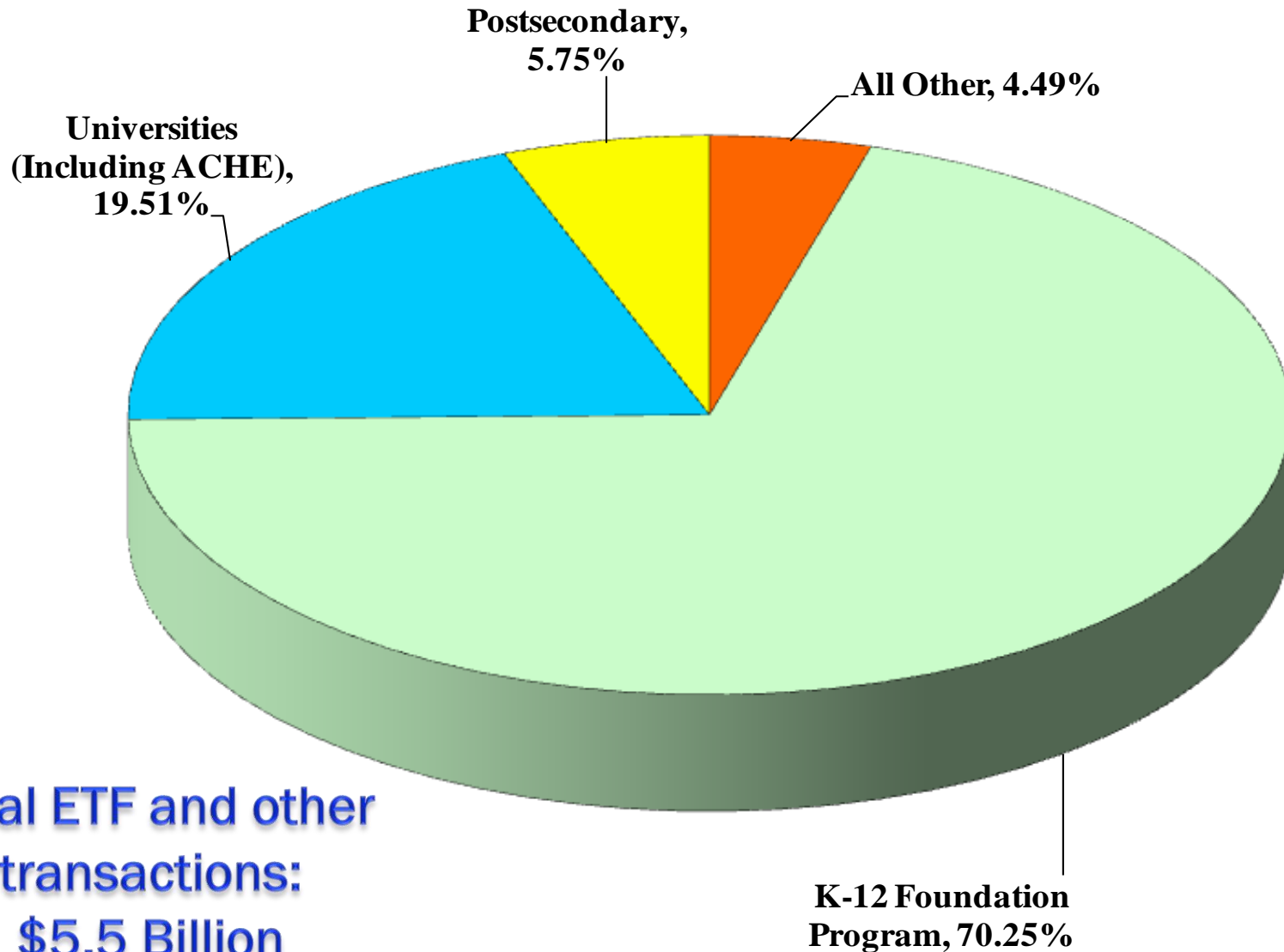
FY 2008 and FY 2012



Appropriation of Education Trust Fund FY 2013



Appropriation of Education Trust Fund FY 2013



Condition of the ETF

FY 2008 through FY 2012

	Actual FY 2008	Actual FY 2009	Actual FY 2010	Actual FY 2011	Actual FY 2012
BEGINNING BALANCE	280,045,027			11,773,101	8,603,889
Receipts	5,943,258,156	5,241,600,057	5,206,441,481	5,286,761,155	5,646,893,519
PSCA Repayment	32,000,000			32,302,687	
Transfer from Rainy Day/Proration Prevention Accounts	439,372,515	437,520,418			
DHR Food Stamp Sales Tax Reversion			11,028,645	18,600,000	27,314,100
Dual Relay Fund Transfer					30,000,000
TOTAL RECEIPTS	6,414,630,671	5,679,120,475	5,217,470,126	5,337,663,842	5,704,207,619
TOTAL AVAILABLE (beginning balance plus total receipts)	6,694,675,698	5,679,120,475	5,217,470,126	5,349,436,943	5,712,811,508
Appropriations, Net of Proration	6,729,089,656	5,707,308,868	5,227,445,033	5,368,293,793	5,683,985,540
Reversions and Adjustments	-34,413,958	-28,188,393	-21,748,008	-27,460,739	-5,532,007
ETF Rainy Day Account Repayment					14,412,984
TOTAL EXPENDITURES	6,694,675,698	5,679,120,475	5,205,697,025	5,340,833,054	5,692,866,517
ENDING BALANCE			11,773,101	8,603,889	19,944,991

Condition of the ETF

Fiscal Years 2012 and 2013

One Year Ago...

	BUDGETED FY 2012	PROJECTED FY 2013	DIFFERENCE
BEGINNING BALANCE	8,603,889		-8,603,889
Receipts	5,552,000,000	5,651,400,000	99,400,000
Transfer from Dual Relay Fund	30,000,000		-30,000,000
DHR Food Stamp Sales Tax Reversion	18,000,000	18,600,000	600,000
TOTAL RECEIPTS	5,600,000,000	5,670,000,000	70,000,000
TOTAL AVAILABLE (beginning balance plus total receipts)	5,608,603,889	5,670,000,000	61,396,111
Appropriations*	5,631,665,227	5,479,907,537	-151,757,690
TOTAL EXPENDITURES	5,631,665,227	5,479,907,537	-151,757,690
ENDING BALANCE	-23,061,338	190,092,463	
*FY 2012 appropriations are as of December 31, 2011. FY 2013 appropriations represent the estimated appropriations cap calculated pursuant to the Education Trust Fund Rolling Reserve Act (Act 2011-3).			

How the Legislature Closed the FY 2013 ETF Gap

	<u>Measure</u>	<u>Fiscal Impact</u>
1)	Utilized a provision of the Rolling Reserve Act that allows funds in the Budget Stabilization Fund to be accessed if the CAP is less than the previous year's appropriation. FY 2012 was growing more than estimated; therefore, the Legislature appropriated \$40 million in FY 2012 to the Fund and then appropriated it to the Foundation Program for FY 2013.	\$40,000,000
2)	Included \$33 million in the PSCA bond issue for fleet renewal.	\$33,000,000
3)	Utilized \$52 million of Sales Tax funds.	\$52,000,000
	TOTAL	\$125,000,000
	*There were other spending changes, such as removal of CHIP.	

The Education Trust Fund Rolling Reserve Act Act 2011-3

- **Establishes the maximum amount (the “Fiscal Year Appropriation Cap”) that may be appropriated from the ETF in any fiscal year, beginning with FY 2013.**
- **Calculation of the Cap**
 - Begin with the total recurring revenues deposited into the ETF in the most recently completed fiscal year. For the FY 2014 budget, the baseline is FY 2012. FY 2012 recurring revenues were \$5,674,207,619.
 - The baseline is adjusted, upward or downward, by the average growth rate in the ETF for the 15 most recently completed fiscal years. For the FY 2014 budget, the 15 years are fiscal years 1998 through 2012. The average growth rate for these years was 3.39%.
 - Multiply the baseline (\$5,674,207,619) by the average growth percentage (3.39%) to determine the amount to add to the baseline – the result is \$192,355,638.
 - Add \$5,674,207,619 and \$192,355,638 to get the preliminary cap, which is \$5,866,563,257.
 - If the growth rate in recurring revenues for FY 2012 exceeds the 15-year average growth rate, then an adjustment is made to increase the cap. The adjustment is equal to 40% of the dollar growth in revenues for FY 2012 over FY 2011.
 - The growth rate for FY 2012 was 6.95%, which is more than the 15-year average growth rate of 3.39%. Therefore, the adjustment is made for FY 2014. Total growth for FY 2012 versus FY 2011 = \$368,846,464 multiplied by 40% = \$147,538,586 added to preliminary cap figure.

The Education Trust Fund Rolling Reserve Act Act 2011-3

- **Calculation of the Cap (continued)**

- If legislation is enacted that will increase or decrease recurring revenues deposited into the ETF, then an amount equal to 95% of the fiscal note attached to the legislative act is added or subtracted from the cap.
 - As of now, no adjustments can be made for this provision of the Act.
- Any nonrecurring revenue deposited into the ETF during FY 2014 is added to the cap.
 - No adjustment has been made for this provision.
- The total cap is the sum of all adjustments and the baseline.
 - The total cap for FY 2014 is \$6,014,101,843.
 - This is an increase of \$591,194,306 from the FY 2013 appropriation cap of \$5,422,907,537.

- **What happens to excess funds when growth exceeds the cap?**

- Pay back the ETF Rainy Day Account until the account has been repaid in full – borrowed \$437M in FY 2009 to be paid back in six years (FY 2015)
 - \$14.4 million paid at the end of FY 2012
 - Three years left to repay the remaining \$422.9 million
- Then deposited into the Budget Stabilization Fund until the Fund reaches a balance equal to 20% of current appropriation from the ETF. Can be used if:
 - cap does not equal previous year budget; or
 - needed to prevent proration
- Thereafter, deposited into the Education Trust Fund Capital Fund

ETF – Rolling Reserve

FY 2014 Cap

FY 2012 Total ETF Receipts	\$5,704,207,619
LESS FY 2012 NONRECURRING AND NEW RECURRING REVENUES:	
(1) Transfer from dual relay fund (Act 2011-567)	(\$30,000,000)
Net Recurring Revenues (Base)	\$5,674,207,619
PLUS:	
(1) 15-year average growth (3.39%)	\$192,355,638
(2) 40% of increase in recurring revenue in FY 2012 over FY 2011 exceeding 15-year growth average	\$147,538,586
(3) New recurring revenue measures for FY 2014 (95%)	\$0
(4) Nonrecurring revenue for FY 2014	\$0
(5) Appropriation from Budget Stabilization Fund equal to difference in FY 2013 appropriations and FY 2014 cap	\$0
FY 2014 Cap	\$6,014,101,843
FY 2013 Budgeted Appropriations (Cap)	\$5,422,907,537
Difference in Cap for FY 2014 vs. FY 2013	\$591,194,306

Condition of the ETF

FY 2013 and FY 2014

	LFO Estimated FY 2013	LFO Estimated FY 2014	Difference
BEGINNING BALANCE	19,944,991		
Estimated Regular Receipts	5,584,838,855	5,785,500,000	3.59%
One-time settlement from corporate income tax	37,661,145		
TOTAL RECEIPTS	5,622,500,000	5,785,500,000	
TOTAL AVAILABLE (beginning balance plus total receipts)	5,642,444,991	5,785,500,000	
TOTAL ETF EXPENDITURES*	5,422,907,537	5,785,500,000	362,592,463
<u>FY 2013 ETF Expenses Outside of ETF:</u>			
Gross sales tax appropriation to K-12	52,000,000		
Budget Stabilization Fund Appropriation to K-12	40,000,000		
Fleet Renewal (Bond Issue)	33,000,000		
Total	125,000,000		
Adjusted FY 2013 Regular Appropriations and FY 2014 Estimated Appropriations Equal to Estimated Receipts	5,547,907,537	5,785,500,000	237,592,463
ENDING BALANCE (Equals Estimated Rainy Day Account Repayment in FY 2013)	219,537,454		
<p>*FY 2013 appropriations are as of December 31, 2012. Pursuant to the Education Trust Fund Rolling Reserve Act (Act 2011-3), any receipts in excess of budgeted appropriations will be used to repay the ETF Rainy Day Account.</p>			

ETF – Rolling Reserve

FY 2015 Estimated Cap

FY 2013 Total ETF Receipts (LFO Revised Estimates)	\$5,622,500,000
FY 2013 NONRECURRING AND NEW RECURRING REVENUES:	
(1) Gross sales tax transfer	\$52,000,000
Net Recurring Revenues (Base)	\$5,674,500,000
PLUS:	
(1) 15-year average growth (3%)	\$170,235,000
(2) 40% of increase in recurring revenue in FY 2013 over FY 2012 exceeding 15-year growth average	\$0
(3) New recurring revenue measures for FY 2015 (95%)	\$0
(4) Nonrecurring revenue for FY 2015	\$0
(5) Appropriation from Budget Stabilization Fund equal to difference in FY 2014 appropriations and FY 2015 cap	\$0
Estimated FY 2015 Cap	\$5,844,735,000
FY 2014 Cap	\$6,014,101,843
Difference in Cap for FY 2015 vs. FY 2014	-\$169,366,843

Fiscal Cliff Issues

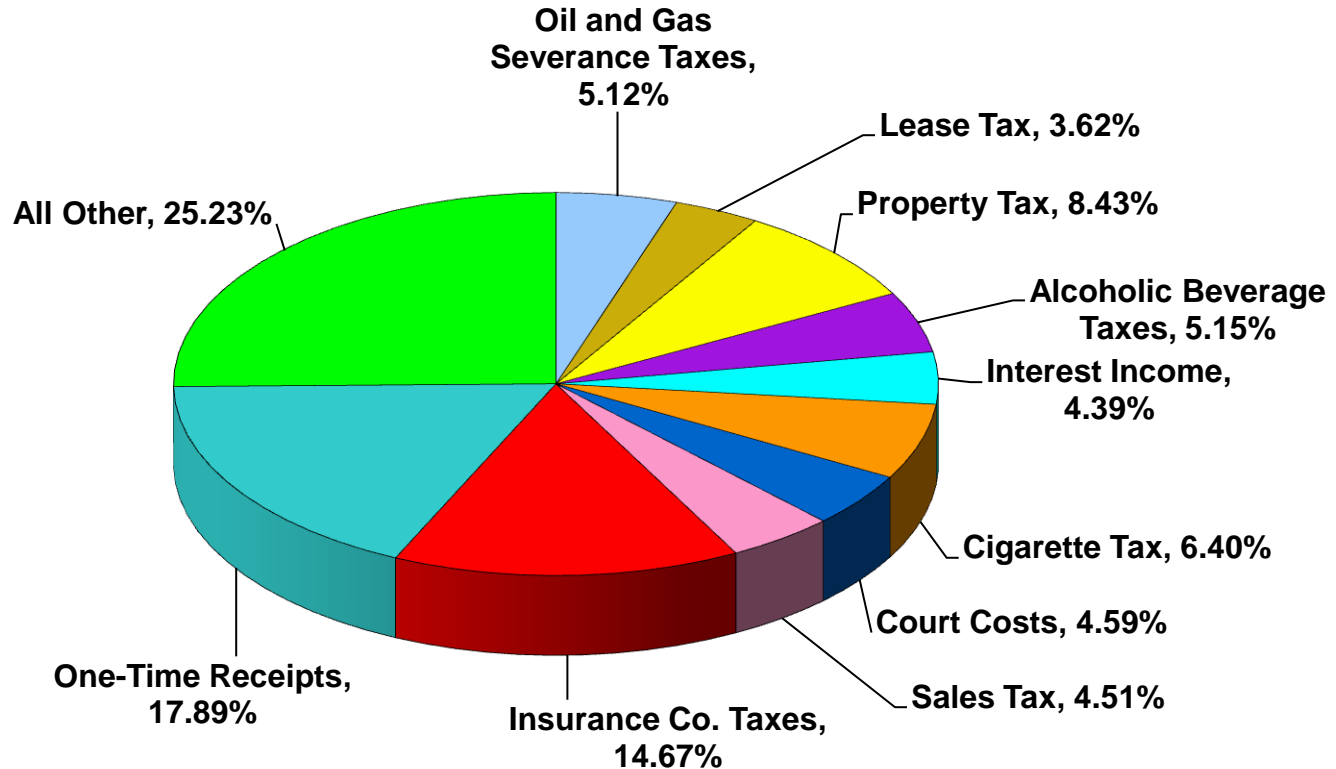
- LFO estimates take into account the major tax provisions in the fiscal cliff agreement passed by Congress.
 - FICA deduction - \$60 million reduction to state income tax receipts
 - Tax rates on high incomes - \$10-15 million reduction to state income tax receipts
- LFO estimates do not take into account the effects that major spending cuts could have on our economy.
 - Will sequestration stand as is?
 - Will there be more tax increases to affect spending cuts?
 - Cuts have been delayed until March.

ETF Rainy Day Account

- Reestablished by Amendment 803 within the Alabama Trust Fund and limited to 6.5% of the immediately preceding fiscal year's appropriations from the ETF
 - Initial Balance: \$437.4 million
 - Withdrawals: Entire amount withdrawn in FY 2009
 - Amount available for withdrawal: \$0
 - Repayment term: Six years (2015)
 - Repayments to date: \$14.4 million
 - Outstanding Balance: \$423 million
 - Sizable repayment possible at the end of FY 2013

The State General Fund

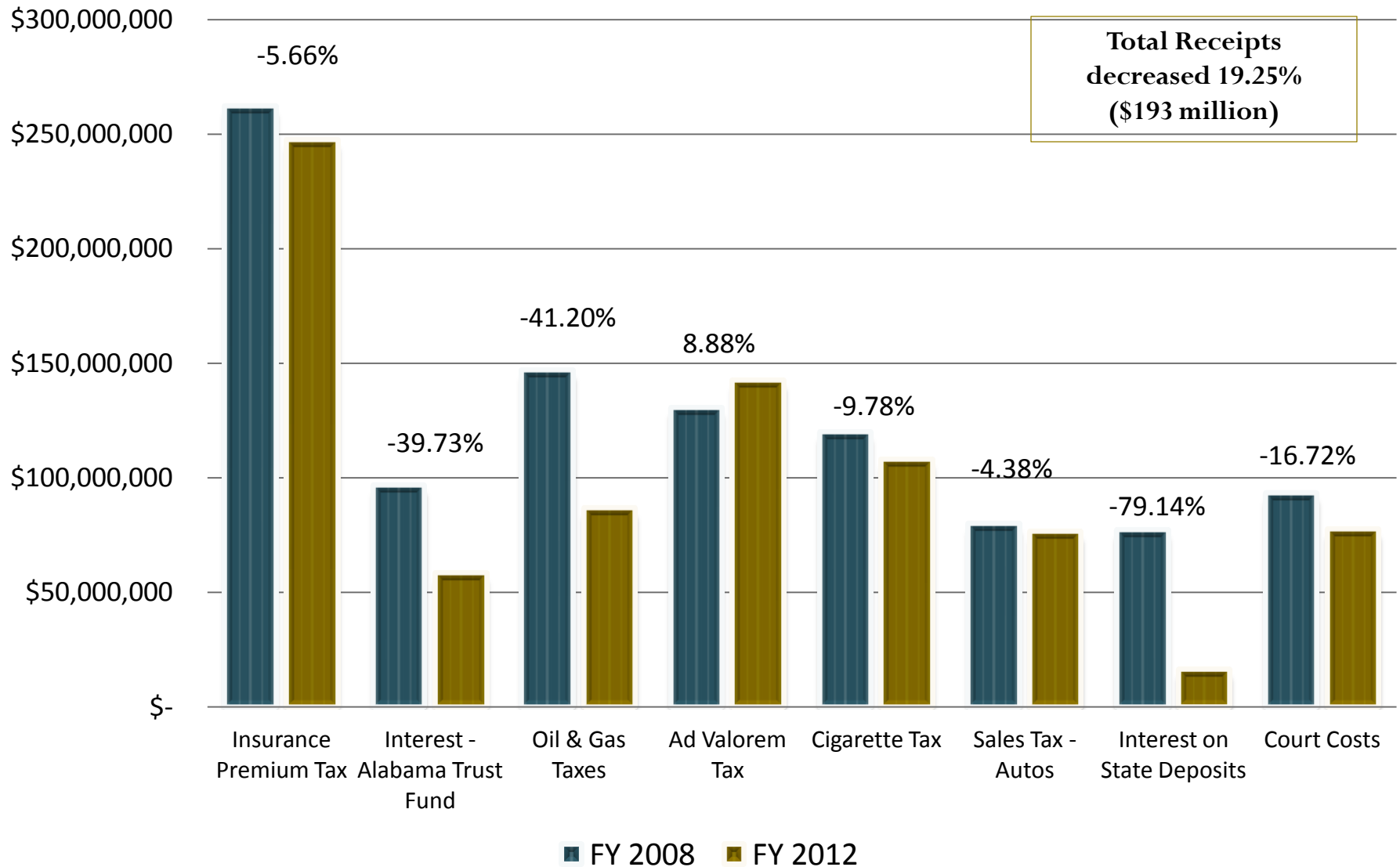
State General Fund FY 2012 Receipts



Total Receipts:
\$1.68 Billion

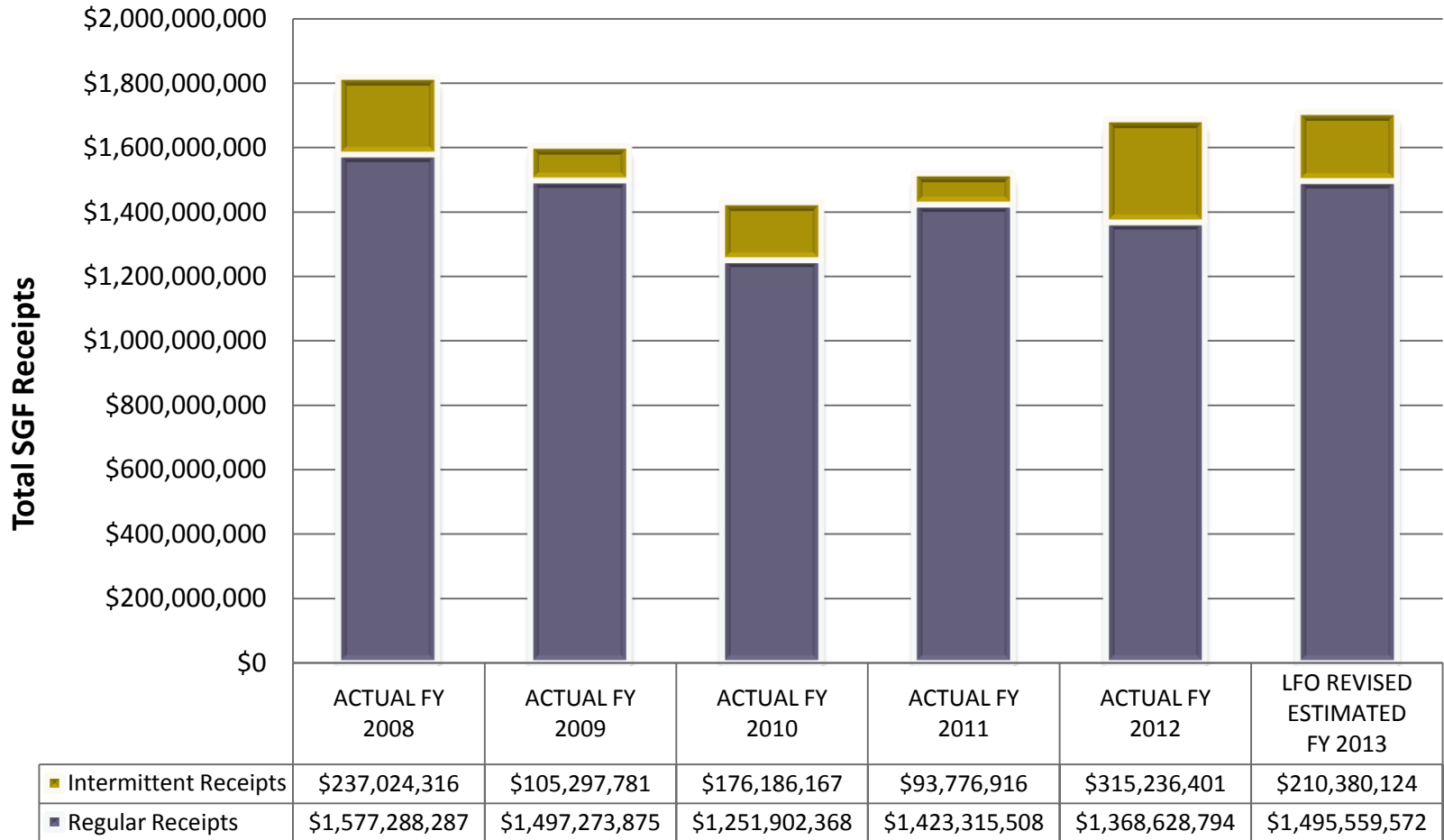
Major SGF Revenue Sources

FY 2008 to FY 2012



State General Fund

Regular and Intermittent Receipts: FY 2008 through FY 2013



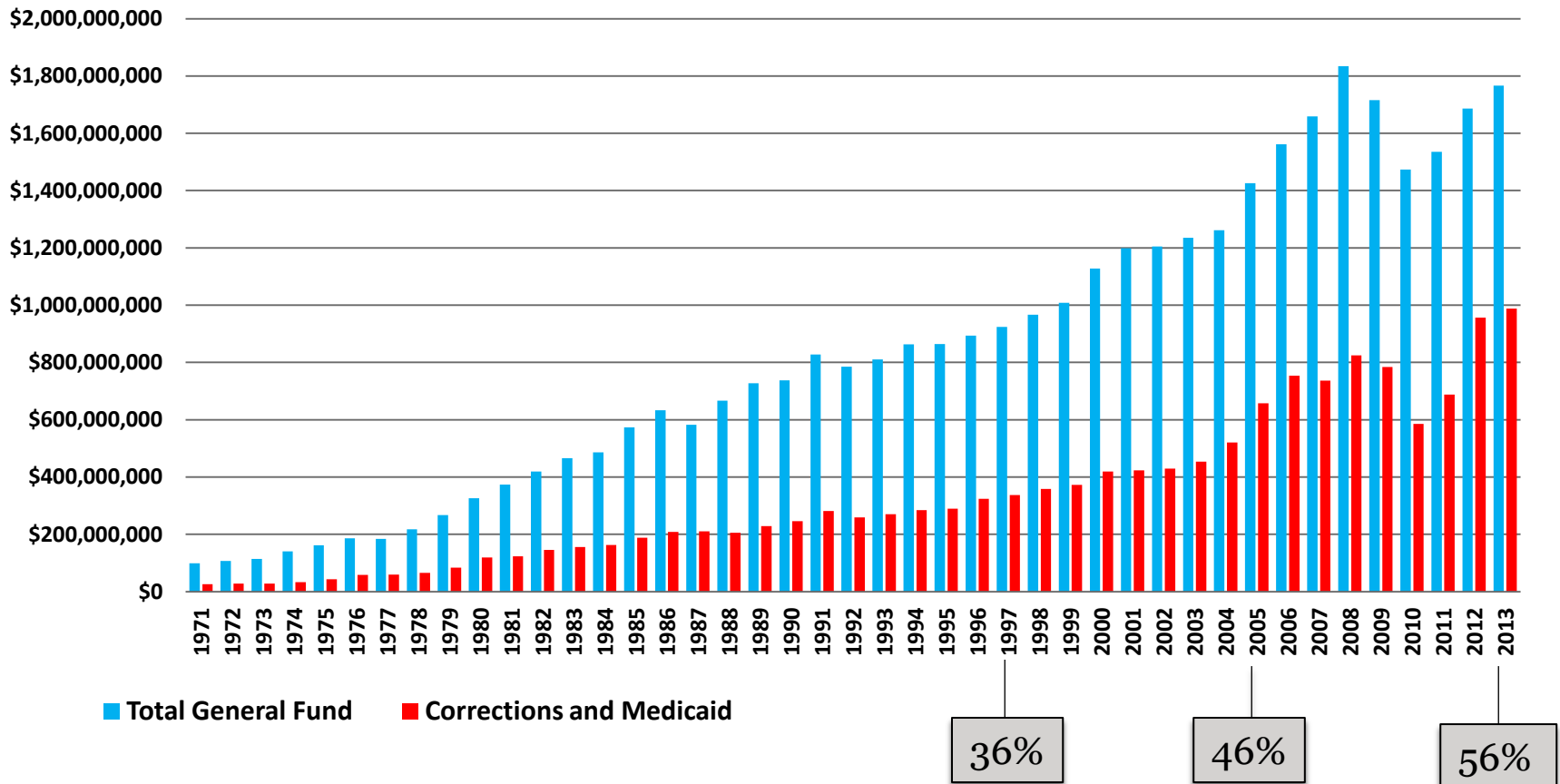
State General Fund Appropriations

- ◆ Medicaid
 - Largest recipient of General Fund dollars
- ◆ Corrections
 - Second largest recipient of General Fund dollars
- ◆ Corrections and Medicaid account for approximately 56% of total General Fund appropriations for FY 2013

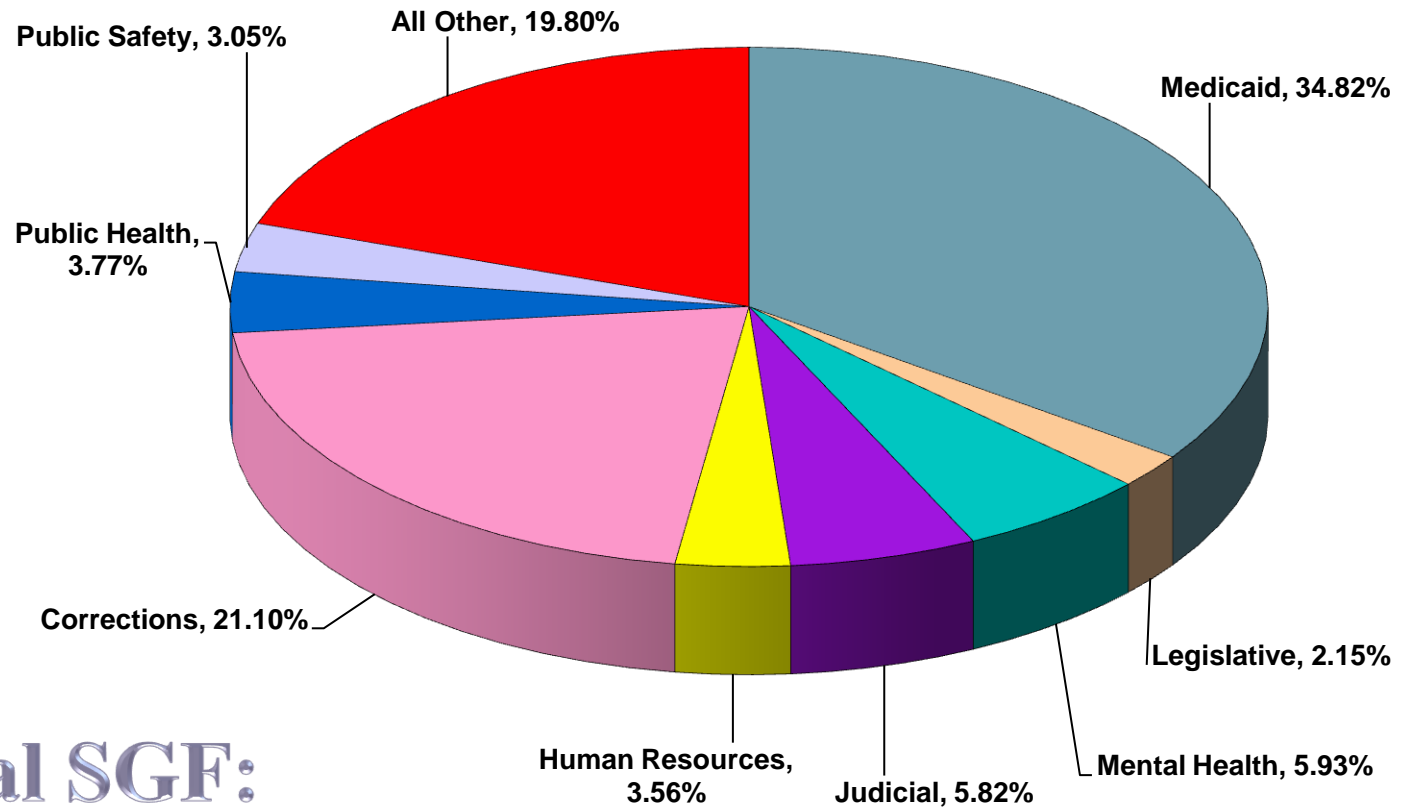
**Medicaid and DOC = \$988M
of SGF appropriation**

State General Fund Growth

Corrections and Medicaid



Appropriation of State General Fund FY 2013



**Total SGF:
\$1.76 Billion**

Condition of the SGF

FY 2008 through FY 2012

	Actual FY 2008	Actual FY 2009	Actual FY 2010	Actual FY 2011	Actual FY 2012
BEGINNING BALANCE	239,088,035	218,986,877	105,430,816	60,101,706	42,008,050
TOTAL RECEIPTS^{1,2,3,4,5}	1,814,312,603	1,602,571,656	1,428,088,535	1,517,092,424	1,683,865,194
TOTAL AVAILABLE (beginning balance plus total receipts)	2,053,400,638	1,821,558,533	1,533,519,351	1,577,194,130	1,725,873,244
TOTAL APPROPRIATIONS AND OBLIGATIONS, NET OF PRORATION	1,834,413,761	1,716,127,717	1,473,417,645	1,535,186,080	1,686,153,012
TOTAL ENDING BALANCE	218,986,877	105,430,816	60,101,706	42,008,050	39,720,232

1) FY 2008 receipts included \$85,750,235 from the Exxon lawsuit; \$117,267,060 from unrealized gains from the Alabama Trust Fund; \$17,023,881 from DOC asset sale; \$12,237,060 in one-time transfer of tobacco revenues; and \$4,746,080 from a pharmaceutical settlement.

2) FY 2009 receipts included \$52,034,871 from a pharmaceutical settlement; \$38,800,000 transferred from the Incentives Financing Authority; \$14,025,410 transferred from tobacco settlement revenues; and \$437,500 transferred from a court order for the 5th Circuit.

3) FY 2010 receipts included one-time receipts of \$161,565,874 transferred from the Rainy Day Account and \$11,120,293 transferred from tobacco settlement revenues.

4) FY 2011 receipts included one-time receipts of \$10,000,000 transferred from the Insurance Guaranty Fund; \$56,091,288 in capital gains transferred from the Alabama Trust Fund; \$10,760,253 transferred from tobacco settlement revenues; and \$16,925,375 transferred from a pharmaceutical settlement.

5) FY 2012 receipts included one-time receipts of \$279,516,366 in capital gains transferred from the Alabama Trust Fund; \$10,797,984 transferred from tobacco settlement revenues; \$5,000,000 in additional sales tax discount transfers; \$1,000,000 in additional use tax discount transfers; \$2,671,957 from a pharmaceutical settlement; and \$1,192,069 from a tobacco settlement penalty.

Condition of the SGF

Fiscal Years 2012 and 2013

One Year Ago...

	<u>ESTIMATED FY 2012</u>	<u>ESTIMATED FY 2013</u>	<u>DIFFERENCE</u>
BEGINNING BALANCE	42,008,050		
TOTAL RECEIPTS¹	1,662,209,264	1,337,242,898	-324,966,366
TOTAL AVAILABLE (beginning balance plus total receipts)	1,704,217,314	1,337,242,898	-366,974,416
TOTAL APPROPRIATIONS AND OBLIGATIONS²	1,875,068,451	1,337,242,898	-537,825,553
TOTAL ENDING BALANCE	-170,851,137		

¹ Includes \$372,926,264 in one-time revenues and transfers, including: \$279,516,366 in capital gains from the Alabama Trust Fund; \$6,000,000 from the sales and use tax discounts; \$20,000,000 from abandoned property; \$44,000,000 from the business privilege tax escrow fund; \$10,719,898 from tobacco settlement balances; \$8,500,000 in additional transfers from the Public Service Commission; \$3,000,000 in additional transfers from the Securities Commission; and \$1,000,000 from the Alcoholic Beverage Control Board.

² FY 2012 appropriations and obligations are as of December 31, 2011.

**FY 2013 estimated receipts
were \$538 million less than
FY 2012 obligations**

How the Governor and Legislature Closed the FY 2013 SGF Gap

	<u>Measure</u>	<u>Fiscal Impact</u>
1)	FY 2012: Proration (10.62%)	\$186,989,003
2)	FY 2013: Increased appropriations of 25 agencies/entities	\$83,170,273
3)	FY 2013: Cut appropriations of 86 agencies/entities	-\$132,746,834
4)	Passed transfer act to allow earmarked funds to be transferred to the SGF	\$62,000,000
5)	Passed court costs bill to generate funds outside the SGF but allowed for reduction in SGF appropriation to certain judicial functions	\$40,000,000
6)	Passed Constitutional Amendment to allow transfers from the Alabama Trust Fund to the SGF for FY 2013 (and for FYs 2014 and 2015)	\$145,800,000
7)	Passed Constitutional Amendment to change spending policy for the Alabama Trust Fund	\$52,000,000
8)	Passed bill earmarking 25% of regular use tax for SGF. Also, 75% of any tax from remote sellers, if authorized by Congress.	\$67,000,000
	TOTAL	\$504,212,442
	*There were other expenditure adjustments.	

Condition of the SGF

FY 2013 and FY 2014

	ESTIMATED FY 2013	ESTIMATED FY 2014	DIFFERENCE
BEGINNING BALANCE	39,720,232		
Revised Regular Receipts	1,485,736,572	1,490,304,897	4,568,325
Additional Transfer from Alabama Trust Fund (Amendment 856)	145,796,943	145,796,943	
Transfers and Reversions	58,032,898	9,823,000	-48,209,898
One-Time Receipts	16,373,283	10,570,314	-5,802,969
TOTAL RECEIPTS	1,705,939,696	1,656,495,154	-49,444,542
TOTAL AVAILABLE (beginning balance plus total receipts)	1,745,659,928	1,656,495,154	
APPROPRIATIONS AND OBLIGATIONS (as enacted)*	1,684,779,549	1,656,495,154	-28,284,395
Additional Appropriations (as of December 31, 2012):			
Reversions Reappropriated	35,975,612		
Fair Trial Tax Transfer	22,500,000		
Emergency Management Agency - Corps of Engineers (April 2011 Tornadoes)	21,600,000		
Other Adjustments	1,805,236		
TOTAL APPROPRIATIONS AND OBLIGATIONS (as December 31, 2012)	1,766,660,397		
TOTAL ENDING BALANCE	-21,000,469		
*FY 2014 estimated appropriations are equal to estimated available revenues.			

Transferred to or Supplanted for the State General Fund: FY 2013

Transferred From	Transferred To	FY 2013 Budgeted Amount
Public Service Commission	SGF	\$8,823,000
Securities Commission	SGF	3,000,000
Department of Revenue - Administrative Funds	SGF	15,000,000
Unified Judicial System - Court Referral Officer Trust Fund	SGF	6,000,000
Department of Youth Services - Tobacco Settlement Fund	SGF	7,916,090
Environmental Management	SGF	4,093,808
Tourism Department	SGF	2,500,000
Insurance Department	SGF	1,800,000
Department of Conservation - Cigarette Tax Receipts	SGF	2,000,000
Personnel Department - Administrative Funds	SGF	1,400,000
Banking Department - Mortgage Settlement Funds	SGF	1,000,000
Tobacco Settlement	SGF	10,373,283
Department of Conservation and Natural Resources - Sales Tax Discount Receipts	SGF	5,000,000
Department of Conservation and Natural Resources - Use Tax Discount Receipts	SGF	1,000,000
Public Road and Bridge Fund - supplanted SGF	UJS	35,000,000
Public Road and Bridge Fund - supplanted SGF	DPS	25,000,000
Public Road and Bridge Fund - statute	DPS	3,500,000
TOTAL		\$133,406,181

SGF Rainy Day Account

- Established by Amendment 803 within the Alabama Trust Fund and limited to an amount equal to 10% of the immediately preceding fiscal year's appropriations from the State General Fund.
 - Initial Balance: \$188.3 million
 - Withdrawals: \$161.6 million was withdrawn in fiscal year 2010
 - Available amount for withdrawal: \$11.2 million
 - Required repayment term: Ten years (2020)
 - Repayments to date: \$0
 - Outstanding Balance: \$161.6 million

FY 2014 Budget Requests

(as of January 29, 2013)

- **ETF Requested Amount: \$6.36 billion (\$959 million (17.7%) more than budgeted to be expended in FY 2013)**
 - The LFO FY 2014 estimated receipts for the ETF are \$237.6 million more than estimated appropriations for FY 2013
- **SGF Requested Amount: \$1.89 billion (\$263 million (16.2%) more than budgeted to be expended in FY 2013)**
 - The LFO FY 2014 estimated receipts for the SGF are \$28.3 million less than estimated appropriations for FY 2013

Other Fiscal Issues

Selected Legal Issues

BP Legal Proceedings:

- **Criminal Case**
 - Plea agreement on criminal charges entered between BP and United States was approved on January 29, 2013
 - Recoveries and Fines totaling \$5.256 billion to be paid over a 5-year period
 - \$2.394 billion of this money will be paid to the National Fish and Wildlife Foundation (NFWF) to be used for projects in the Gulf Coast states
 - The NFWF must use \$335 million for relevant projects in Alabama
 - No settlement funds will be paid directly to the state
- **Civil Case**
 - Trial to begin on February 25, 2013
 - Multiple phases of trial with first phase expected to last about three months
 - No estimates on amounts of damages are currently available

Tobacco Litigation:

- Arbitration between the Major Tobacco Companies and states continues concerning whether the states have diligently enforced the non-participating manufacturers escrow statute required by the initial tobacco settlement agreement
- An agreement has been reached in arbitration between the Major Tobacco Companies and 17 states, including Alabama, over the diligent enforcement provision of the Master Settlement Agreement
- The final decision as to whether to accept the agreement rests with a three-judge arbitration panel
- The financial settlement from this agreement could potentially yield the State of Alabama up to an estimated \$48 million in additional tobacco revenue

Other Fiscal Information

- Retirement Update: Tier I and Tier II
 - Retirement Contribution Rates
- Employer Cost for Retirement System
 - History of PEEHIP Funding
 - History of SEHIP Funding

Retirement Update:

Tier I and Tier II

EMPLOYEES' RETIREMENT SYSTEM and TEACHERS' RETIREMENT SYSTEM (Act 2012-377)		
	Tier I (Employees with service prior to January 1, 2013)	Tier II (Employees first hired on or after January 1, 2013)
Earnable Compensation	Does not specifically include or exclude overtime	Includes overtime up to 125% of annual base compensation
Average Final Compensation	Average 3 of last 10 years for which average is highest	Average 5 of last 10 years for which average is highest
Plan Member	Any member who had service for which received credit prior to act	Any member who first began eligible employment on or after effective date of act and had no prior eligible service
Accrued Sick Leave	May convert into creditable service	Cannot convert accrued sick leave into creditable service
Retirement Age	60 with at least 10 years of creditable service or 25 years in system	62 with at least 10 years of creditable service
Retirement Allowance - Pension	Retirement allowance is equal to 2.0125% of average final compensation x years of creditable service	Retirement allowance is equal to 1.65% of member's average final compensation x years of creditable service. Allowance cannot exceed 80% of average final compensation.
Disability Retirement	Medical board must determine that member is mentally/physically incapacitated for further performance of duty, incapacity likely to be permanent, and member should be retired. Must undergo medical exam until 60. If member is able to engage in gainful employment, retirement allowance is reduced.	Medical board must determine that member is totally and permanently mentally or physically incapacitated from regular and substantial gainful employment and should be retired. Must undergo medical exam until 62. If member has capacity to engage in regular and substantial gainful employment, board shall discontinue retirement allowance until otherwise eligible for service retirement.
Method of Financing	Employee pays 7.5% of earnable compensation into retirement	Employee pays 6% of earnable compensation into retirement

***Note - under Section 36-27-59, correctional officers, firefighters, and law enforcement officers covered under ERS or TRS are awarded one year hazardous duty time for every 5 years of employment provided that the member made additional contributions. This section will not apply to Tier II employees. However, these employees may retire at age 56 with 10 years of creditable service under Tier II. These members pay 7% of their earnable compensation into retirement under Tier II. Additionally, these members do not have to undergo medical exams after a determination is made that the member may retire under the disability provisions.**

Retirement Update:

Tier I and Tier II (continued)

STATE POLICE RETIREMENT (Act 2012-377)

	Tier I (Employees with service prior to January 1, 2013)	Tier II (Employees first hired on or after January 1, 2013)
Earnable Compensation	Does not specifically include or exclude overtime	Includes overtime up to 125% of annual base compensation
Average Final Compensation	Average 3 of last 10 years for which average is highest	Average 5 of last 10 years for which average is highest
Plan Member	Any member who had service for which received credit prior to act	Any member who first began eligible employment on or after effective date of act and had no prior eligible service
Accrued Sick Leave	May convert into creditable service	Cannot convert accrued sick leave into creditable service
Retirement Age	52 with at least 10 years of creditable service or 20 years in system	56 with at least 10 years of creditable service
Retirement Allowance - Pension	Retirement allowance is equal to 2.875% of member's average final compensation x years of creditable service (if under 56 and completed 20 years, includes bonus of 4 years. If 56 or older includes bonus equal to years remaining to 60).	Retirement allowance is equal to 2.375% of member's average final compensation x years of creditable service. Allowance cannot exceed 80% of average final compensation.
Disability Retirement	Medical board must determine that member is mentally/physically incapacitated for further performance of duty, incapacity likely to be permanent, and member should be retired. No medical exam required after determination. If member is able to engage in gainful employment, retirement allowance is reduced.	Medical board must determine that member is totally and permanently mentally or physically incapacitated from regular and substantial gainful employment and should be retired. No medical exam required after determination. If member has capacity to engage in regular and substantial gainful employment, board shall discontinue retirement allowance until otherwise eligible for service retirement.
Method of Financing	Employee pays 10% of earnable compensation into retirement	Employee pays 10% of earnable compensation into retirement

Retirement Contribution Rates

Employer Contribution Rates:

<u>Fiscal Year</u>	<u>Teachers</u>	<u>State Employees</u>	<u>State Police</u>	<u>Judges</u>
1992	6.35%	6.02%	12.59%	27.00%
1993	6.35%	6.00%	12.59%	28.70%
1994	6.31%	6.00%	14.23%	27.01%
1995	6.31%	6.99%	15.22%	27.01%
1996	9.23%	6.99%	15.22%	23.05%
1997	9.23%	6.99%	15.17%	19.71%
1998	9.66%	7.56%	15.74%	19.71%
1999	4.03%	3.11%	6.85%	9.16%
2000	6.38%	4.08%	9.45%	21.19%
2001	6.38%	4.08%	9.45%	21.19%
2002	5.96%	3.95%	9.24%	21.19%
2003	5.02%	3.95%	9.24%	21.19%
2004	6.56%	4.19%	13.87%	21.93%
2005	7.03%	5.57%	18.03%	21.93%
2006	8.17%	6.77%	21.36%	21.93%
2007	9.36%	7.78%	24.12%	22.50%
2008 ⁽¹⁾	11.75%	10.26%	30.42%	23.23%
2009 ⁽²⁾	12.07%	11.88%	30.99%	23.23%
2010	12.51%	11.94%	30.57%	24.20%
2011	12.51%	11.94%	30.57%	24.20%
2012	10.00%	9.42%	29.92%	24.35%
2013	10.08%	10.12%	31.61%	32.06%
2014	11.71%	12.02%	35.81%	35.24%

⁽¹⁾ The FY 2008 rates include the following one-time amounts attributable to bonus payments to retirees: teachers, .69%; state employees, .42%; state police, .42%; judges, .18%.

⁽²⁾ The FY 2009 rates include the following one-time amounts attributable to bonus payments to retirees: state employees, .51%; state police, .51%; judges, .18%.

Employee Contribution Rates FY 2013:

- 7.5% Teachers and State Employees (except state police, certified law enforcement, correctional officers and firemen); for all years prior to FY 2012, the rate was 5%
- 10% State Police
- 8.5% Judges and certified law enforcement, correctional officers, and firemen; for all years prior to FY 2012, the rate was 6%

Note: Employee contribution rates are set by statute.

Employer Cost for Retirement System

FY	TRS ⁽¹⁾	ERS ⁽²⁾	JRF ⁽³⁾
1992	233,507,746	53,628,567	5,979,485
1993	235,429,461	54,506,267	6,859,219
1994	245,783,913	56,265,932	6,280,387
1995	289,703,296	69,619,376	6,854,217
1996	284,615,456	68,802,114	6,494,717
1997	328,195,083	68,911,987	5,866,165
1998	355,953,472	74,055,482	5,397,838
1999 ⁽⁴⁾	182,895,065	33,428,569	2,969,304
2000	267,906,340	43,442,959	5,582,715
2001	280,051,290	49,144,145	7,531,949
2002	266,510,671	46,053,625	8,200,383
2003	238,725,494	48,522,435	8,627,322
2004	305,887,402	52,218,449	8,982,290
2005	343,724,774	68,739,801	8,946,381
2006	425,544,602	90,951,802	8,915,570
2007	532,004,599	115,156,793	9,293,711
2008	716,912,822	160,623,070	9,861,941
2009	752,874,357	192,528,482	10,309,412
2010	773,177,416	191,361,347	10,797,333
2011	780,224,248	187,294,046	10,915,820
2012	631,837,073	136,138,632	8,821,380
2013	609,955,577	145,746,147	11,720,000
2014	706,109,205	172,351,795	12,552,000

⁽¹⁾ Teachers' Retirement System **total** cost. Since FY 1996, a small portion of the employer contribution shown above has been paid from funds other than the ETF.

⁽²⁾ Employees' Retirement System **total** cost.

⁽³⁾ Judicial Retirement Fund **total** cost.

⁽⁴⁾ The Retirement System changed from book to market value for assets in FY 1999, resulting in a lowering of the employer rate/contributions most significantly in FY 1999, but which also affected employer contributions each year thereafter to a lesser degree.

Note: The amounts shown for FY 2013 are budgeted amounts.

The amounts shown for FY 2014 are estimated amounts.

Retirement Systems: Unfunded Liability – FY 2011

Plan	Unfunded Liability Amount	% Funded
Employees' Retirement System:	\$2.5 billion	64.2%
Teachers' Retirement System:	\$9.3 billion	67.5%
Judicial Retirement Fund:	\$157 million	60.0%

- Does not take into account the 18-19% returns realized in FY 2012
- Will begin to affect rates in the next couple of years

History of PEEHIP Funding

Fiscal Year	Employer Cost per month per active employee	Employer cost
1996	210.50	214,606,434
1997	165.00	180,450,600
1998	200.00	271,768,000
1999	225.00	317,273,000
2000	317.00	373,727,784
2001	345.00	404,200,620
2002	414.00	481,170,672
2003	433.00	509,244,372
2004	479.00	566,126,268
2005	583.00	698,704,512
2006	668.00	805,407,600
2007	717.00	881,918,604
2008	775.00	961,452,126
2009	752.00	925,317,517
2010	752.00	911,424,000
2011	752.00	900,050,546
2012	714.00	825,157,866
2013	714.00	829,510,920
2014*	714.00	829,510,920
*Requested by PEEHIB		

History of SEHIP Funding

Fiscal Year	Employer Cost per month per active employee	Employer cost
1996	255.00	115,667,901
1997	255.00	112,947,717
1998	255.00	91,502,406
1999	320.00	131,585,762
2000	357.00	148,115,489
2001	400.00	169,112,747
2002	445.00	193,682,768
2003	490.00	217,474,419
2004	550.00	227,042,877
2005	650.00	276,662,054
2006	668.00	281,492,460
2007	717.00	319,123,823
2008	775.00	322,591,716
2009	775.00	322,232,685
2010	805.00	361,793,265
2011	805.00	356,520,996
2012	765.00	318,095,221
2013	765.00	298,114,622
2014*	920.00	358,516,979
*Requested by SEIB		

LFO Website Information

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